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1934

Economic Conditions
Governmental Finance
United States Securities

New York, March, 1934.

General Business Conditions

THE forward movement of business that began in January has continued at an accelerated rate during the past month. Operations have expanded in all the chief industries, and comparisons with a year ago have become almost as favorable as during the boom in the Spring of 1933. Current rates of steel and automobile production and building contract awards are more than double last year's figures, car loadings are running 15 per cent higher, and electric power consumption shows a gain of 12 per cent. Bank debits to individual account, reflecting the dollar turnover of business, are 20 per cent larger.

To be sure, comparisons with 1933 may overrate the improvement, in view of the extreme depression caused at this time last year by the banking crisis. However, the gains in the past two months have exceeded the usual seasonal percentages, and generally by a good margin. After seasonal adjustment the composite business indexes, which supply the best measurement of general activity, show the first substantial rise since last July, though they are still considerably short of the peak reached in that month.

With disbursements of Government funds putting more purchasing power in the hands of consumers, the trade showing has been a strong one. Department store dollar sales in the New York City area in the first half of the month were 15 per cent greater than a year ago, compared with an increase of 8.2 in the first half of January. Undoubtedly the increase in other cities has been larger, and the gain in rural trade the largest of all. The Department of Commerce estimates, from mail order and chain store reports, that retail sales in rural areas in January were 45 per cent larger in dollars than a year earlier. One of the mail order houses had an increase of 80 per cent in its catalogue sales. There is every reason to believe that February figures from farm States will be approximately as good.

It is a long time since business has had as much support as this from the farm districts, and naturally this is the outstanding trade development. Farm purchases start a chain of purchasing power moving around the circle, putting people to work to satisfy the farmers' needs, and in turn creating a better demand for farm products.

With business over the past two months making such reports as these, the hopeful predictions made at the turn of the year, with respect to the first quarter or half of 1934, are well on the road to fulfillment. Moreover, the influences causing the trade revival are still operating. Spring weather will open up new activities and bring new demands for goods, and the credit and monetary situation is more favorable for expansion than in a long time.

Effects of Stabilization and Government Spending

The President's action in stabilizing the dollar at a fixed price, through the resumption of gold buying by the Treasury, is a step that was essential to lasting recovery, and its effects have been wholly stimulating. For the present, at least, investors are relieved of their fears about the money, and business men are able to make their plans without having to worry about the value of the dollar. American capital held abroad has been coming back, supplemented by foreign capital, and the investment of these funds in the markets has had a bullish effect upon securities and commodities. The gold inflow adds to the already abundant credit base.

There never was any question as to the adequacy of the credit resources to supply all the needs of the country if business could call the credit into use. The credit paralysis has not been due to insufficient gold or bank reserves, but to the losses of capital, the lack of profit in business, the monetary uncertainty, and the general disruption of trade and accustomed economic relationships, all of which limited the use of credit, and destroyed the enterprise of borrowers and the confidence of lenders.

Now the credit base is greatly enlarged through the revaluation of the gold stock and the new gold receipts, as described hereafter;

and there is more will to use the credit. The Government through its borrowings is expanding credit, and through its expenditures distributing it widely. The disbursements are going in large part directly to individuals, by whom they are spent in trade; and where the funds are employed for the support of credit institutions they also add to purchasing power, present or future, by releasing frozen deposits and increasing the banking capital.

Extent of Treasury Disbursements

The pickup in business shows that the Government expenditures are giving the stimulus intended. Treasury disbursements during February have about doubled the rate of former years, though they have fallen somewhat below the January figures. During the first twenty-three days they were at the rate of $667,000,000 for the full month, which compares with $956,000,000 in January. Reduction of expenditures by the Civil Works Administration was begun February 15, in the expectation that the workers released would find employment in private industry and in public works projects. At the same time, however, an appropriation of $950,000,000 for direct relief and to carry the C.W.A. until May 1 was made by Congress.

An increase in expenditures by the Public Works Administration is expected to take up any slack that comes from the tapering off of the C.W.A. To February 23 the P.W.A., though it had allotted its entire appropriation of $3,300,000,000, had spent only $322,000,000, exclusive of $396,000,000 for the C.W.A. Hence most of the stimulus to business from Government-financed construction activity is still to come.

To the farmers also the outpouring of Government funds continues. The Farm Administration estimates that benefit payments during 1934, on programs already authorized, will total $766,500,000, of which $386,000,000 will have been paid out by the end of April. The corn-hog farmers, 400,000 of whom are reported to have signed contracts to reduce their production, will receive $367,000,000, mostly before the end of April. The wheat growers will receive $81,000,000, the cotton planters $173,000,000, and the tobacco raisers $35,000,000. These include sums paid since January 1, but not the payments made last year.

The corn growers will receive $110,000,000 in loans on corn in their cribs at 45 cents a bushel, which is the full market value and more, allowing for freight charges to the central markets. Also, in addition to the benefit payments for not producing, loans will be made to facilitate production, $40,000,000 having been set aside for farmers who lack money for seed and other costs of the planting season. Finally, to these figures must be added $200,000,000 expected to be appropriated for the beef and dairy cattle reduction program, and whatever amount may be used for a second or "mopping up" campaign to complete the desired curtailment of wheat acreage.

These payments to farmers will aggregate over one billion dollars. The effects locally of their distribution may easily be appreciated. Farmers are paying up their debts to merchants and implement companies, catching up with their past-due mortgage payments, and above all spending more in trade. Business men of the rural towns see clearly the connection between the payments and the trade revival, and naturally are enthusiastic about the policy, few giving heed as yet to its artificial and temporary character, to the possible outcome in the credit situation, or to what the reaction will be when the time comes to discontinue the payments.

As long as this purchasing power is provided, and goes around the circle, business will feel the stimulus, and business policies are being shaped accordingly. Merchants are optimistic, mills have good unfilled orders, and there is more confidence in commodity price levels.

Price Recovery

The trade recovery also has the support of increasing purchasing power due to the rise in prices, led by farm products. Cotton, hogs, cattle, lambs and butter have all advanced. The farm products group of the Bureau of Labor Statistics price index stood on February 17 at 62.1 (1926 = 100). This is a gain of 13.3 per cent in eight weeks, and is 50 per cent higher than at the low point of the depression. Prices of typical goods purchased by the farmer have risen from the bottom about 17 per cent. This leaves him a net gain in buying power, though the ratio between the two prices is only 61 per cent of the pre-war average.

There is no reason to doubt that the farm price recovery is due for the most part to changes in the supply and demand situation, accomplished both naturally and through the efforts of the Agricultural Adjustment Administration. It may be the view in some quarters that the monetary policy is chiefly responsible, but this opinion overlooks the developments in each market, and the concerted effort to control production and prices.

The most important advance has been in cotton, which has gone through last Summer's top to the best price in three years. If the rise were due to the fall of the dollar the explanation would be that the cheaper dollar lowered the cost of cotton to foreign buyers, and that their purchases were accordingly increased. But it does not appear that this has

been the case, since exports during the season to February 15 were 125,000 bales less than in the same period of the previous season.

On the other hand the plans sponsored by the A.A.A. promise to alter the cotton situation very radically. The effort to reduce the surplus in 1933, through paying the farmer to plough under 10,000,000 acres of planted cotton, was ineffective, due to the high yield upon the acreage remaining. The program this year is to reduce the plantings to 25,000,000 acres, 15,000,000 less than a year ago, and preliminary reports indicate a satisfactory sign-up. However, the cotton farmers made money last year, out of the combination of Government benefit payments and loans, low cash expenses, improved prices, and high yields per acre; and there is general testimony, supported by the largest purchases of fertilizer tags and of mules in several years, that they intend to cultivate intensively and to do their best to produce a big crop on the smaller acreage this season.

Hence the Administration for the first time has decided upon compulsory curtailment of production, and has sponsored a bill to limit cotton ginnings arbitrarily to 9,500,000 bales. If this is the outcome most of the cotton surplus may be absorbed in the season 1934-35, and the carryover reduced to around normal proportions. This is the reason for the price advance.

Importance of Price Relationships

Along with the farm products, other staple commodities have been firm, notably rubber and coffee. The action of these two commodities gives additional light upon the opinion that the monetary policy has caused the price rise. Both rubber and coffee are imported, hence more dollars are required to pay for them than before the departure of the dollar from the old gold basis. But they have acted very differently during the past year, each in response to its own situation. Rubber has advanced more than three times as much as the dollar has depreciated, and the explanation is that the market expects an agreement by the British and Dutch Governments to restrict production substantially. Coffee, on the other hand, had no move at all until recently, and altogether has advanced much less than the dollar has fallen. The recent rise is due to predictions of a short Brazilian crop in 1934-5; with another year of the destruction program, under which more than 26,000,000 bags have already been burned or dumped in the ocean, a short crop will reduce the surplus to manageable proportions.

It is evident, in commodities entering into world trade, that the market improvement is chiefly the result of measures to control production and prices, and does not signify the gain that everyone desires in full, free and orderly trade. In addition to the extraordinary efforts of our A.A.A., there are control measures in all the metals, coffee, sugar, tea, silk and many other commodities, and now probably rubber—in short, a world-wide attempt by private organization and under governmental authority to raise prices.

By these measures prices to many raw material producers are being improved. On the other hand, there are also measures advancing prices of goods these producers buy, and if the latter advance as fast as the former a disparity will still exist. When the A.A.A. was established less than a year ago a rise of farm prices to the 1909-14 average would have restored the desired parity between the prices of what the farmer sells and what he buys, since the last-mentioned prices were exactly at that point. However, they are now 17 per cent above the 1909-14 level. Accordingly, the goal of the A.A.A., and of all efforts on behalf of raw material producers, has had to be moved higher, and therefore is more difficult to reach.

This has a very important bearing upon the question of what the business situation will be when the time comes to discontinue the distribution of purchasing power by Government expenditures. If in the meantime better terms of exchange between the various commodities and articles entering into trade are established, upon the secure basis of supply and demand, the business recovery will survive the stoppage of the Government disbursements, proceed under its own steam, and the Government debt can be contracted and private credit expanded. However, any increase in industrial costs and prices, such as the thirty-hour week proposal would cause, would make even more difficult the re-establishment of fair and sound trade relations, and would constitute an obstacle to recovery.

Passage of the thirty-hour legislation or any other that would greatly raise costs would doubtless crowd the markets for a time, in the effort of buyers to "beat the gun." But this would be unfortunate. It is to be hoped that the business expansion will not be overdone, nor the price rise too rapid. There is reason to doubt that a rapid price advance, based largely on temporary or artificial factors, could be sustained, and the reaction would be damaging. What is wanted is orderly progress in restoring the business equilibrium, so that industry and agriculture will be mutually self-supporting, and go forward under their own momentum.

Professor George F. Warren, one of the President's monetary advisers, summed the matter up in an address at Ithaca on February 15, when he said, "At this stage of the recovery it is desirable to place primary emphasis on volume of sales and volume of employment." This is wise counsel, and it

stresses by implication the need of low costs and prices for manufactured goods.

The Industrial Pickup

In light of the description of the trade situation given, it would be expected that the chief pickup in industry would be in consumers' goods, and this is the case, including automobiles in that category. However, there have been gains in sales of machinery required to produce those goods, or to bring down their cost; and also some improvement in capital goods generally, in part facilitated by Government financing.

Automobile output was held back during January, and to some extent during the past month also, by engineering difficulties connected with the model changes. However, great efforts have been made to get into peak production by March, in view of the increased consumer purchasing power and the good dealer and retail demand. The industry turned out 161,000 cars in January, 265,000 (estimated) in February, and expects to exceed 300,000 in March, which would give a first quarter total well over 700,000, the best for the period since 1930. The automobile industry ordinarily gives more support to Spring business than any other, and its showing therefore is a good indication of the general prospect.

Automobile orders have been the chief factor in the rise of steel mill operations from the January average of 34.1 per cent of capacity to 45.7 in the last week of February. However, there are gains in other lines. Structural steel awards in the first six weeks of the year were 45.9 per cent greater than in 1933. These awards represent in part Government money, disbursed through the P.W.A. The $200,000,000 P.W.A. loans to railroads for equipment buying likewise are producing orders for steel, in addition to privately-financed rail purchases.

Building contract awards during the first half of February, as reported for 37 States by the Dodge Service, were 31.3 per cent smaller on a daily average basis than in January, but 105.3 per cent above a year ago. By reason of the P.W.A. allotments, the contract volume for the first quarter may be nearly three times that for the like period of 1933. Altogether it is probable that 70 per cent of the total represents P.W.A. funds. Nevertheless, private construction is showing moderate gains, and clearly has turned up from the bottom made last year.

The textile industries have expanded substantially, especially in the cotton division. In January cotton mill operations were stepped up, consumption being 22,300 bales per day against 19,400 in December and 19,800 one year ago. Despite this increase, sales of goods exceeded production by 59 per cent, according to the Cotton-Textile Institute, and they have continued in excess during the forepart of February. This good backlog of orders assures a relatively large cotton consumption through April at least. Conditions in woolens and worsteds are spotty, but mills making the lower-priced fabrics are doing a good business and running full. Silk business has had a substantial pickup from the low levels of last December.

The coal industry has shared the general forward movement, and production is at the highest levels since 1931.

Money and Banking

Supplementing the enormous increase in the value of the gold stocks caused by devaluation have been the heavy receipts of gold from abroad during the past month, which in the two weeks from February 7 to February 21 raised the total gold stocks from $7,036,000,000 to $7,203,000,000, or by $167,000,000, with net imports from the 1st to the 27th calculated at something like $347,000,000. This inflow, of course, has tended to swell bank reserves, which continue approximately a billion dollars in excess of requirements for the member banks alone. In New York City, the effect upon reserves has been especially pronounced, the incoming gold more than offsetting transfers by the Treasury of funds collected in the New York district and disbursed throughout the country, with the result that excess reserves of New York City banks rose from around $34,000,000 on the 1st of February to $131,000,000 on the 21st.

Money naturally has continued easy in view of these enlarged supplies of funds, though quotations have remained about as in the previous month.

The Demand for Funds

Government borrowing continues to be the chief factor on the demand side of the money market, and during the past month accounts for the first substantial increase in the volume of bank credit since last Spring. In the four weeks ended February 21 the total loans and investments of the weekly reporting banks increased by over a billion dollars, an expansion almost wholly caused by bank subscriptions to new Treasury issues in January and February. Loans on securities were likewise somewhat higher, probably also because of new Treasury financing which caused dealers to borrow to carry larger portfolios of Governments. On February 21, approximately 35 per cent of total loans and investments of weekly reporting banks represented investments in Government securities.

Unsecured loans, generally considered fairly representative of commercial borrowing, have

failed to show any consistent uptrend, despite the greatly increased activity of business. This may be due, however, to the large charge-offs which many banks have made since the first of the year, as demand for commercial accommodation has increased noticeably.

Strength in Bonds

The bond market has continued to give a good account of itself during February. While the advance was not as great as in January, this was natural in view of the rapidity of the earlier movement, and prices in most groups reached new high levels for the current move. Factors favoring the bond market have been the continued good reports from business, and the pressure of idle funds which was further increased during the past month by the heavy gold imports. At the present time, according to calculations of Moody's Investors Service, yields on the highest rated bonds are the lowest since 1902.

Industrial Corporation Profits in 1933

Annual corporate reports that have been published in increasing numbers during the past month confirm the earlier reports of improved earnings in 1933 over the preceding year. A tabulation of some 810 statements of companies engaged in various lines of industry and trade and having an aggregate net worth of $14,003,000,000, shows combined net profits, less deficits, of approximately $441,000,000 in 1933 as contrasted with a net deficit of $46,000,000 in 1932 for the same companies. A summary of the reports for the two years, classified according to major industries, is given in the accompanying table.

Of the 37 different industrial groups given, 11 that had profits in 1932 showed increases in 1933, most of these being engaged in the production or distribution of goods for immediate consumption, including confectionery, beverages and miscellaneous food products,

INDUSTRIAL CORPORATION PROFITS FOR THE YEARS 1932 AND 1933

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Years 1932	1933	Per Cent Change	Net Worth January 1 1932	1933	Per Cent Change	Per Cent Return 1932	1933
7	Agricultural Implements	D-$15,375	D-$ 8,645	....	$188,351	$167,655	—11.0	......	......
10	Amusements	D- 2,686	D- 1,252	....	217,057	200,154	— 7.8	......	......
9	Apparel	D- 7,648	1,790	+	123,724	100,779	—18.5	......	1.8
9	Automobiles	D- 13,905	90,127	+	1,129,458	1,020,729	— 9.6	......	8.8
29	Auto Accessories	D- 10,959	D- 829	....	145,230	122,691	—15.5	......	......
17	Bakery	27,008	23,620	—12.5	343,978	321,836	— 6.4	7.9	7.3
35	Building Materials	D- 12,920	D- 6,192	....	387,494	351,206	— 9.4	......	......
13	Chemicals	34,798	53,511	+ 53.8	692,316	661,490	— 4.5	5.0	8.1
11	Coal Mining	304	2,702	+788.8	283,208	272,586	— 3.8	0.1	1.0
16	Confectionery and Bevs.	2,996	10,556	+252.3	89,588	83,728	— 6.5	3.3	12.6
36	Cotton Mills	D- 8,478	7,813	+	244,228	231,263	— 5.3	......	3.4
10	Drugs and Sundries	13,044	12,680	— 2.8	147,532	131,439	—10.9	8.8	9.6
23	Electrical Equipment	D- 8,847	D- 3,196	....	190,985	180,990	— 5.2	......	......
37	Food Products—Misc.	44,025	52,711	+ 19.7	675,093	599,882	—11.1	6.5	8.8
19	Household Supplies	8,950	14,441	+ 61.4	218,811	188,606	—13.8	4.1	7.7
35	Iron and Steel	D-138,920	D- 64,226	....	3,592,906	3,401,635	— 5.3	......	......
50	Machinery and Tools	D- 20,341	D- 10,195	....	287,844	253,805	—11.8	......	......
18	Meat Packing	D- 2,059	22,347	+	642,445	619,857	— 3.5	......	3.6
17	Mdse.—Chain Stores	41,683	58,769	+ 41.0	453,479	438,609	— 3.3	9.2	13.4
12	Mdse.—Dept. Stores	D- 8,964	98	+	132,002	119,492	— 9.5	......	0.1
25	Mdse.—Wholesale, etc.	D- 4,868	7,482	+	168,034	144,955	—13.7	......	5.2
18	Mining, Non-ferrous	2,091	11,051	+428.5	360,278	328,651	— 8.8	0.6	3.4
7	Paint and Varnish	1,008	5,928	+488.1	95,347	84,336	—11.5	1.1	7.0
20	Paper and Products	D- 319	3,637	+	200,790	186,447	— 7.1	......	2.0
25	Petroleum	10,531	16,852	+ 60.0	523,166	499,949	— 4.4	2.0	3.4
12	Printing and Publishing	6,520	1,550	— 76.2	115,938	110,199	— 5.0	5.6	1.4
15	Railway Equipment	D- 16,349	D- 11,314	....	434,678	372,424	—14.3	......	......
10	Real Estate	D- 379	D- 642	....	133,622	103,994	—22.2	......	......
14	Rubber Tires, etc.	D- 3,052	10,722	+	355,113	337,022	— 5.1	......	3.2
11	Shoes	3,206	12,240	+281.8	190,185	171,181	—10.0	1.7	7.2
16	Silk and Hosiery	D- 2,145	2,687	+	80,326	65,074	—19.0	......	4.1
12	Sugar	1,573	3,140	+ 99.6	112,683	111,412	— 1.1	1.4	2.8
21	Textile Products—Misc.	D- 12,187	11,193	+	221,309	206,181	— 6.8	......	5.4
18	Tobacco	71,029	51,779	— 27.1	539,678	532,930	— 1.3	13.2	9.7
7	Wool	D- 9,795	8,473	+	93,331	87,483	— 6.3	......	9.7
102	Miscellaneous—Mfg.	D- 17,520	46,201	+	1,035,714	949,399	— 8.3	......	4.9
54	Miscellaneous—Services	3,148	3,034	— 3.6	267,173	242,918	— 9.1	1.2	1.2
810	Total	D-$45,802	$440,643	+	$15,113,094	$14,002,987	— 7.3	......	3.1

D—Deficit.

shoes, chain stores, paints and petroleum products. The chemical group which has had a good record throughout the depression, also increased its earnings last year. Changes from deficits to profits were shown by 12 groups, most of which likewise were in the consumption goods industries, including cotton, silk, wool and miscellaneous textile products, meat packing, department stores, wholesale trade, automobiles and rubber tires. Decreased deficits were shown by 8 groups, including iron and steel, machinery, agricultural implements, electrical equipment, railway equipment, auto accessories, building materials and amusements.

While the favorable changes by groups numbered 31, the unfavorable numbered only 6. Decreased profits were reported by 5 groups, most of which suffered either from reduced volume or lower selling prices, including baking, drugs, tobacco, and printing and publishing. The proportion of companies operating at a profit rose from 40 per cent of the total in 1932 to 62 per cent in 1933.

Thus while the showing last year indicated an encouraging turn from the very unfavorable results in 1932, it does not mean that all companies made money or that earnings were high as measured against normal standards. Combined net profits of the group represented an average annual rate of return upon net worth of only 3.1 per cent, which is less than the usual savings bank interest rate and is much less than is normally required to attract the new capital that must be risked for financing the continued improvement and growth of the various manufacturing and merchandising industries.

Factors in the Increase

An important factor that affected the reported earnings almost universally, though not uniformly, was the rise that occurred in commodity prices. The Bureau of Labor index of 784 commodities, including raw, semi-finished and finished goods, stood approximately 14 per cent higher at the end of the year than at the beginning, while Moody's index of fifteen basic raw materials was 57 per cent higher. A rising market benefits manufacturers and distributors, so long as it continues rising, by stimulating sales, widening profit margins and eliminating the heavy writing-down of inventory valuation that made the showing in years of declining markets so unfavorable.

A number of companies also benefitted from the revaluation of foreign exchange, and of merchandise and investments held abroad, which automatically rose in value when converted into depreciated dollars.

Another factor in the improved earnings of many companies was the writing-down of fixed assets and the writing-off of obsolete or idle plants and equipment, with a corresponding reduction in surplus account, capital stock or both. This resulted in a reduction in depreciation and other overhead charges and made it possible to show profits on a much smaller volume of business than before. The aggregate net worth of the companies making up this tabulation decreased between January 1, 1932, and January 1, 1933, by more than $1,100,000,000 as a result of the drastic writing-down of shareholders' equities, combined with operating deficits and the payment of dividends in excess of earnings. Today the book net worth of many going companies is less than half that of the year 1929.

This writing-off of capital investment on which earnings are calculated must be taken into consideration in any judgment as to the reasonableness of current business profits.

Other aids toward restoring profits have been the continued efforts to lower costs by trimming expense budgets, practicing rigid economies, developing improved methods and using more labor-saving machinery. Finally, the introduction of a wide variety of new products since the depression started has opened up new markets for many companies.

Offsetting Factors

The beneficial effects upon earnings of these steps toward reducing costs, together with a rise of selling prices in a number of industries, have been partly offset by the increase in costs resulting from shorter hours and higher wages, as well as by the increased prices that must be paid for raw and semi-finished materials. As the average manufacturer or merchant operates on a narrow margin of net profit he is unable to absorb any substantial increase in costs and must, if he is to remain in business, pass them on to the consumer. If the marking up of retail prices is done too rapidly, or if it outruns the gain in purchasing power, his product will meet sales resistance and its physical consumption be reduced.

The upward trend of prices has encouraged companies to build up inventories, the increase in which during 1933 averaged about 28 per cent for a representative list of 100 companies. This has been accomplished in some cases by a liquidation of government and other marketable securities.

An item of rapidly increasing cost that gives particular concern is the aggregate bill for taxes levied by Federal, State and local governments. These have properly been the subject of comment in a large number of annual corporate reports inasmuch as they affect not only investors but the consuming public as well.

A striking illustration of the effects of taxation upon earnings is given in the 1933 report of one of the large chain grocery systems, an

old established organization with sales in excess of $200,000,000 annually. The company had a balance of earnings last year, after all expenses and taxes, of $2.51 per share for its common stock, and estimates that in 1934 it will have to earn $9.00 per share to pay or absorb its taxes, of which there are no less than forty-two different kinds, before there will be any earnings for the stock. Expressed in another way the total taxes to be paid represent an annual charge of 7.8 per cent of sales or 34.3 per cent in invested capital.

A successful small grocery chain reported that taxes of $426,897 paid in 1933 were equal to 47 per cent of its net profit and were $193,508 or 83 per cent higher than during 1932. It was added that some of the new revenue legislation enacted during 1933 did not become operative until the latter part of the year and that its full effects therefore will not be felt until 1934, when an additional tax increase of $82,000 is estimated.

One of the large meat packing companies estimates that the processing tax on the hogs its buys annually will amount to $30,000,000 to $40,000,000, in addition to which its expenses, after having been reduced approximately 30 per cent below the 1930 level, have been increased 18½ per cent since the establishment of the labor code for the packing industry raising wage rates and reducing hours of work per employe. Last year its profit margin was 1-6 of a cent per pound on the tonnage handled.

A pipe line company, whose function is to aid both the producers and consumers of oil by furnishing cheap transportation of petroleum products, reported that in 1933 of each dollar of net income from normal operations, before taxes, approximately 26¾c was required to pay taxes, whereas in 1932 approximately 14½c was required.

Taxes paid last year by the users of automobiles, including excise taxes on automobiles and tires, gasoline taxes, etc., totaled approximately $1,170,000,000, which sum exceeded the wholesale value of the 2,048,000 cars and trucks produced during the year by $200,000,000.

Similar examples could be cited at length showing the repressive effect of heavy taxation on all enterprise, large and small. They illustrate a consequence of government spending that ought to be carefully weighed in connection with any program calling for further increases in such expenditures. Once committed to such a program, it would seem self-evident that governmental policies should be such as to give every possible encouragement to earnings if industry is to produce the taxes required without discouragement to enterprise or impairment of the sound financial condition of the individual companies.

The Gold Rush

The new monetary act was reviewed at length in the February number of this publication, and to avoid repetition readers are referred to that discussion of specific provisions and probable effects. The act was signed on January 30, and on the following day the President announced that under its provisions he was fixing the weight of the gold dollar at 15 5/21 grains nine-tenths fine from that date and hour. This compares with 25.8 grains of same fineness which had been the unit dollar since 1837. The change makes the new dollar, in terms of the old, 59.06 cents. The proclamation closed with the following declaration:

> This proclamation shall remain in force and effect until and unless repealed or modified by act of Congress or by subsequent proclamations; and notice is hereby given that I reserve the right by virtue of the authority vested in me to alter or modify this proclamation as the interest of the United States may seem to require.

Following the issuance of the President's proclamation, on January 30 and 31, the Treasury announced a series of regulations for the administration of the new law, and pursuant to the terms of the President's proclamation. These provide that as limited therein the mints will purchase or sell gold at $35 per ounce (which corresponds to 59.06 cents to the dollar) subject to a charge upon each transaction of ¼ of 1 per cent and the usual treatment charges. Such charges are customary, and together with freight and insurance constitute the irreducible costs of gold shipments, and together establish what are known as the "gold points," within which exchange dealers may operate without resorting to gold shipments. When the payments running in opposite directions get so far out of balance that they do not settle themselves, the exchange rate rises above those limits and gold tends to move, as the cheapest way of making the settlement.

Outward and Inward Movements of Capital

Last March, when gold payments were suspended by the United States and indications were that the situation might be prolonged indefinitely, or the monetary unit devalued, a strong demand for foreign currency developed, for the purpose of converting dollars into foreign currencies and thus escaping depreciation or devaluation. This was an abnormal influence, and of itself caused depreciation. The United States Government frankly viewed the depreciation with favor, as tending to raise prices in this country, and sought to aid it by offering dollar exchange in foreign markets below current rates and also by buying the domestic gold production at daily rates increasingly above the coinage rate.

Although there is no reason to think that these operations were the major influence upon rates of exchange, they had some effect, and

with the continuing transfer of capital out of the country, the rates gradually worked lower, until the dollar was fluctuating around 62 cents in gold shortly before the new monetary bill was introduced. This bill, by setting a probable limit to devaluation somewhere from 50 to 60 cents, strengthened the dollar rate, and when the President issued his proclamation, fixing the stabilization rate at 59.06 cents to the dollar, a return movement of capital to the United States started immediately, and was accompanied by a movement of foreign capital, induced by the presumption that the Government's policies would result in rising prices in the United States. The demand for dollar exchange thus created raised the rate several cents further above the new parities of the dollar with foreign currencies. Thus in Paris the conversion rate of French francs into dollars rose to 4.7 cents above par on the first day and 6.6 cents on the second day, and in London the sterling rate rose in like manner.

These premiums, against actual shipment costs from western European ports plus Treasury charges, at first not over 0.75 of 1 per cent, started an enormous movement of gold to this country. The situation promised the easiest money international bankers had seen in some time, and free of risk unless the United States Government should suddenly change its buying rate, as it has expressly reserved the right to do, but this was not immediately probable. All that was necessary was to possess sums of currency in countries where gold was obtainable either in the open market or by presenting the currency for redemption, and this was made easy by the offerings of persons who were wanting exchange on New York. These persons gave their foreign currency for New York drafts, the currency was converted into gold and the gold was shipped to New York, where it was sold to the Treasury for cash, which was available to meet the drafts sold against it—and this at a profit of several per cent.

No such scramble, as reflected in the price of available gold, ever was known before. No such amounts ever before were risked on a single ship, running up to $45,000,000, but the number of fast ships was limited and time was of the essence of the transactions. The high exchange rates and heavy movement soon had the effect of modifying the demand and lowering the premiums.

Competition for shipping services caused costs to increase, particularly the item of insurance, which rose in London from the normal rate of 1 shilling per £100 to 5 shillings, then 10 and 15 shillings and upward, to 40 and even 50 shillings. The higher rates would be possible for only part of the coverage for a shipment. Marine insurance companies limit their risks per ship, and on shipments amounting to $30,000,000 to $45,000,000 per ship, a wide distribution by reinsurance was necessary. If the highest rate named actually was paid, it doubtless meant a loss to the original insurer. In fact, there was not enough insurance to go around, and buyers were raising prices on themselves, as borrowers raised interest rates in Wall Street in 1929.

To February 27th receipts at the New York Assay office from abroad on this movement were:

Great Britain	$179,665,000	France	$88,688,000
Canada	9,899,000	Mexico	4,770,000
Holland	47,098,000	Earmarked	10,280,000
Switzerland	4,808,000	Miscellaneous	1,767,000
Total			$346,975,000

Shipments on the water promised to raise the total to $360,000,000. However, in any comparison with former gold movements it should be considered that the figures are for new gold dollars, representing about 40 per cent less gold than the former dollars.

At the end of February exchange rates had declined to a narrow margin of profit, indicating that the movement was coming to an end.

Sources of the Shipments

The heaviest shipments came from London, but none from the Bank of England, which has not been paying gold since September 21, 1931. The shipments from London were obtained in the open market, and represented either current receipts from other countries, in part from mines and in part consignments to take advantage of more favorable exchange rates there, or accumulations in private hands which had not been turned into the Bank on account of the latter's policy of not paying gold. More than $316,000,000 of gold was received in London from abroad in the three weeks ended February 19, of which two-thirds was from Paris, moving by the triangular route on account of the cross-exchange rate. Against these heavy receipts, London shipped out about $167,000,000 of gold, nearly all of which came to the United States. Thus London has had a net gain in gold holdings to date. Loose holdings of gold over the world have been rapidly cleaned up.

The heaviest demand on any central bank was on the Bank of France, for the others appear to have imposed restrictions of some kind. The Netherlands Bank and Swiss National Bank have maintained for some time a rule of not selling gold except to other central banks paying gold, but the demand for gold at Paris affected exchange rates sufficiently to cause gold to move from these two institutions to the Bank of France, thus in part easing the drain there. The table on page 43 shows the loss of gold by them and other central banks.

Obviously all of these phenomena were highly abnormal, being due to the change of dollar exchange rates and not to normal workings of

the gold standard, except as the latter tends to maintain or restore the international equilibrium which is necessary to the interchange of products and all international business. Even now, with all of the confusing regulations by governments affecting trade, exchange transactions, monetary systems, etc., the ultimate standard by which values are compared and business is done is gold.

Effects upon Monetary Systems and Business

Although the gold movement has been recognized everywhere as of great importance, the immediate effects in the business world have not as yet been of very great importance. The Government of Czechoslovakia has determined upon the devaluation of that country's money by one-sixth, in response to the popular demand for higher prices, and as a competitive policy. The Premier in announcing his purpose stated that it was necessary "to support the Czechoslovakian export trade in its difficult competition against exporters selling in depreciated currencies." The Governor of the National Bank, Mr. Pospisil, a man of high standing in European financial councils, resigned in the protest against the policy and the Board of Directors with him. The bill, however, has become a law. The fact should be mentioned that this is the second devaluation of the currency to which the people of Czechoslovakia have been subjected since the war, the first having been in the old Austrian crown, the par of which in United States money was 20.26 cents. This was legalized as the crown of Czechoslovakia at a par of 2.96 cents, and this is now devalued to a value of 2.47 cents if compared with the former United States dollar, or 4.18 cents by the new United States dollar. It is too early to know what effects this action by Czechoslovakia will have upon neighboring states, but the Berlin newspapers are sharply critical of it. They say it will accomplish wage- cost- and price-reductions in the industries and intensify the competition which the German industries must meet. Thus what is claimed at Prague to be defensive is alleged at Berlin to be offensive, and this illustrates the demoralizing influence of currency changes. Dr. Hjalmar Schacht, President of the German Reichsbank, in an address to the Central Association of Bankers last month again denied that any idea of devaluation was entertained, but admitted that there was some support for such proposals in export circles.

A despatch dated February 25th from Vienna to the New York Herald-Tribune, says:

> It is feared here that Austria will be swamped with cheap textiles, shoes, etc., as far as conditions for imports from Czechoslovakia permit. It will also be difficult to contend against Czechoslovakian competition in the Balkans, Poland and Italy.
>
> In connection with the Czechoslovakian measure, the President of the Austrian Central Bank, Kienbock, stated authoritatively that Austria does not intend any changes in the present schilling parity.

The pre-war Austrian currency, the unit of which was worth 20.26 cents, was practically wiped out by the post-war inflation. However, by the help of a League of Nations loan, distributed abroad and partially in the United States, a new monetary system was created, with a gold unit, the schilling, having a par with the United States dollar of 14.07 cents. This was related to the old crown currency on the basis of 10,000 crowns to 1 schilling. The new schilling currency has been off the gold basis since 1931, and is not officially quoted, but unpegged quotations are at a discount of about 20 per cent.

Italy is reported to be contemplating a direct general reduction of wages and prices, to protect its trade position, instead of a second devaluation of the currency. The par of Italy's pre-war "lira" was 19.3, corresponding to the francs of France, Belgium and Switzerland, but it was devalued in 1927 to 5.26 cents, an action taken about six months before the French devaluation. This proved to be a high rate, but in order to avoid changing it Premier Mussolini decreed a general reduction of wages and prices, and carried it through successfully. If reports are correct he is considering a repetition of this action.

Reports from Ottawa are that the Canadian parliament now in session is likely to pass a devaluation bill at this session, the action of the United States being generally accepted as making it necessary. The Canadian dollar is now within a fraction of par with the new United States dollar, and its policy probably will be to keep this relationship. The Japanese Government is reported as preparing a bill for the devaluation of the yen, probably to conform to its present depreciation in the exchanges. The Scandinavian currencies are rather definitely attached to the pound sterling and the legal units presumably will be changed when the pound is legally changed. Australia and New Zealand have their currencies pegged at about 20 per cent below the pound sterling, the Union of South Africa has definitely attached its currency to the pound. Practically all the South American countries have depreciated their currencies further during the past year in order to promote their trade; similar measures have been taken by a number of countries in Central and Southeastern Europe.

The Pound Sterling and Dollar

The most important relationship of the United States dollar with foreign currencies is with the pound sterling, not only on account of the direct intercourse between the two countries but because they are quoted in competitive trade all over the world. Before the war the par between them, based on their gold contents, was $4.8665. During the war and until April 25, 1925, the pound was depreci-

ated, and wages and prices in Great Britain became adjusted to the depreciation. Unwilling to devalue its standard, the British Government undertook the resumption of gold payments at the former par and this undoubtedly would have been the advantageous policy for all interests, if wages and prices could have been readily readjusted downward to that basis. Failing in this, the effects upon Britain's export business were injurious, and contributed much to the enforced suspension of gold payments in 1931.

Following this suspension the pound fluctuated in terms of gold and of the dollar, much of the time around about \$3.50. It had been as low as \$3.14 in December, 1932, but in the months of January and February 1933 averaged about \$3.40. After the United States departed from the gold basis the dollar rate to the pound advanced above \$5.00, at the high, \$5.52. Late quotations for our new dollar have been \$5.05 to \$5.08. It may be assumed that the United States Government would like to have the rate not below the old rate of \$4.86 and perhaps above \$5.00, while the British Government, which considered \$4.86 an overvaluation as against the old dollar, will want it to be below that figure. It is of much greater importance that a stabilization be accomplished which conforms as nearly as possible to the realities of the exchange situation and therefore will be permanent, than that either country shall have a nominal advantage which will require further readjustments either in exchange rates or prices and wages.

The Purchasing Power Parity

Under the conditions which existed before the war, with nearly all nations on a free gold basis, what is known as a "purchasing power parity" existed or tended to exist between all of the currencies. That is to say, prices the world over tended to be upon a common level, taking costs of shipment between the countries or to common central markets into account. If the price of any transportable commodity in any country was long below the general level, purchases would turn to that country and if the total exports of that country were unduly increased gold would flow to it, until by the rise of prices the normal equilibrium was restored. This was the great service automatically rendered to commerce by the common gold standard.

The present flow of gold to the United States is occasioned by the fact that by the devaluation of the dollar it is possible to convert foreign currencies into dollars and thus make purchases in the United States below the normal purchasing power parity. If these purchases become large enough in the aggregate to raise the price level in the United States to the level abroad the flow of gold would cease. However, the immediate cause of the gold shipments has been not so much the desire of foreigners to buy American commodities as the desire of Americans to repatriate the capital which they have been temporarily sequestering in Europe and of foreigners to buy American stocks on speculation. Foreign governments are alarmed at the possibility of increasing imports from the United States and taking steps to prevent it, either by protective tariffs and quotas or by reducing the value of their own currencies. Unless there is a large increase of our exports or a prompt revival of business in the United States, to create an increased demand for money here, it will be difficult to find employment for these additional amounts of capital, in which case the movement will come to an end and possibly an outward movement set in.

Although exporting interests generally favor it for immediate advantages, there is no permanent gain of trade to any country by currency depreciation, because other countries can respond in various ways. There is no stability—anywhere—in the natural world or in human societies—unless all the elements in a given situation are in at least temporary adjustment or equilibrium. There is either order and cooperation or there is chaos. Competition between nations by currency depreciation is unintelligent, reckless and leads to nothing but ruin.

Change of Discount Rates

The Bank of France raised its discount rate on February 8 from 2½ to 3 per cent. In the United States the Reserve bank rates have been changed as follows:

New York	From 2	to 1½	(February	2)
Cleveland	" 2½	" 2	("	8)
Dallas	" 3½	" 3	("	8)
Boston	" 2½	" 2	("	8)
St. Louis	" 3	" 2½	("	8)
Richmond	" 3½	" 3	("	9)
Kansas City	" 3½	" 3	("	9)

These are the only changes of official bank rates in the month. Central bank rates the world over moved slightly downward in 1933, the exceptions being unchanged, and the reduction was commonly ½ per cent.

The fact that immediate effects are no greater is attributable in large part to the fact that so many of the central institutions are not paying gold freely, and therefore are in position to protect their gold holdings. Moreover, time enough has not elapsed for a showing of effects upon prices and trade movements, which are the factors which influence popular opinion.

With the exception of the Reichsbank, the principal central banks of Europe are strong in gold. We give comparative figures for 1913, 1932, 1933, and latest available dates, and to make the picture more complete include the

holdings of the United States Government and of the banking institutions of the principal non-European countries. We also give figures for the gold holdings in terms of the new United States dollar:

Gold Holdings

	(In Millions of old gold Dollars)				(In new $)
	End of 1913	End of 1932	End of 1933	Latest Date**	Latest Date**
United States	1,200	4,045	4,012	4,254	7,203
Gold Bloc Countries:					
France	679	3,254	3,022	2,918	4,941
Switzerland	33	477	386	362	613
Netherlands	61	415	371	341	577
Belgium	48	360	380	380	643
Italy	267	307	373	374	633
Poland	—	56	53	54	91
Germany*	278	192	92	74	125
Countries off gold but following pound sterling:					
England	165	583	928	928	1,571
Sweden	27	55	99	100	169
Norway	12	39	40	40	68
Denmark	20	36	36	36	61
Finland	7	8	8	8	14
South Africa	34	35	83	85	144
India	124	162	162	162	274
Australia	22	42	3	3	5
New Zealand	25	25	25		
Other Countries off gold:					
Czechoslovakia	—	51	51	51	86
Hungary	—	17	14	14	24
Austria	251	21	24	27	46
Spain	92	436	436	436	738
Japan	65	212	212	212	359
Argentina	256	249	244		
Canada	117	84	77		
Brazil	90	—	—		
Grand Total (50 countries):					
Old Dollars	4,856	11,897	11,950	12,000***	
New Dollars	8,222	20,143	20,232		20,317***

* Not paying gold, but nominally maintaining the old parity.
** About middle of February, 1934.
*** Estimated.

This table does not support the representation that a scarcity of gold exists. Notice the increases since 1913. Nevertheless, with the unbalanced state of the international exchanges, caused in part by the disorder in price relations and in part by the unprecedented amount of international indebtedness, the nations are timid about exposing their reserves to sudden and incalculable demands, as may arise from the monetary policies of other countries. Hence, anxiety to control gold movements, and incidental thereto the extraordinary efforts of countries to make themselves as fully self-sufficient in production as possible.

Maldistribution of Gold Increased

It was inevitable that the United States during the war and years of European disorder following should accumulate more than its normal requirement of the world's gold. In truth, if regard is had for the proportion of the world's business done within the United States, it is not easy to prove that this country has had more than its proportionate share of gold, but with the credit facilities made available by the Federal Reserve System, unquestionably we have had more than was needed at any time for the volume of business being done. Even in the boom years the Reserve Banks were operating most of the time with reserves above 70 per cent.

The "maldistribution of gold"—having reference particularly to the accumulations of the United States and France, to which in both cases reparation and foreign debt payments contributed—has been freely charged with responsibility for the world crisis and depression. It has been charged with greater responsibility than belongs to it, but that the holdings have been unbalanced, and that this contributed to disastrous inflation in some countries and injurious credit restriction elsewhere, can hardly be denied. How to accomplish a desirable distribution was a problem. The foreign loans made by this country seemed to be justified on this account, as a means of restoring the balance and increasing world productivity. We will not reopen that discussion, but now that this new avalanche of gold has come upon us the problem of how all our holdings can be usefully employed, and the effects of an aggravated maldistribution mitigated, obviously is more serious than before.

The President, in his message to Congress presenting the monetary act, indicated acceptance of the view that a maldistribution of gold existed at that time, for he referred to the possibility that this country might be required to participate in "a future agreement among the nations for a redistribution of the world's stock of monetary gold." Undoubtedly this was the view of the President's monetary advisers, as expressed by their theories and arguments. We are forced to conclude that the events of the past month have not been according to their expectations.

Effects Upon France

France has been the center of attention, because she has had a difficult budgetary situation for several years and also an adverse trade balance, which together were creating a situation fundamentally unsound, as involving the danger of inflation. Political difficulties have increased the confusion. Every cabinet has depended for support upon a coalition of parties or factions, with the result that since February, 1932, there have been eight ministries in succession, which of course has been destructive of continuity in policies and disturbing to public confidence. Expenditures persistently have exceeded revenues, a situation which can be remedied only by reducing the former, increasing the latter or by a combination of both methods. But one section of the public has been resolutely against any further economies while another section has been equally resolute against any increase of taxation.

Meanwhile popular opinion has become more restive and belligerent, each succeeding ministry being a target for attack by numerous groups which have had little in common but their antagonism to the Government. This agitation culminated in the furious riots in Paris last month, which forced out two cabinets. In the emergency the President called upon an ex-President of the Republic, M. Doumergue, a man of high prestige, to form a cabinet, and he has formed a coalition including all of the leading groups, as was successfully done by Poincare in 1926.

Meantime the situation was made more critical by the drain of gold to the United States, which has increased the talk that France might be obliged to devalue the franc again. The Bank of France is very strong in gold, as the result of the accumulations from 1926 to 1931. The latest statement shows a reserve of 74,432,000,000 francs ($4,941,000,000 new style) which is about 78 per cent of demand liabilities.

On the face of this showing there does not appear to be much reason for doubting that France can maintain the gold standard, if its finances are placed on a sound basis and a resolute defence is made. Nor has there been heretofore any question that public opinion in France was strongly against further devaluation. It must be borne in mind that the franc, like the units of Czechoslovakia, Austria, Italy and most of the countries of Europe, has been devalued once, in the case of the franc from 19.3 cents to 3.92 cents. The patriotic subscribers to the French war loans, together with all other creditors, have lost this proportion of the value of their holdings. France has been "fed up" on devaluation.

Aside from its unbalanced budget and the present adverse trade balance, the danger to the stability of the currency is in the fact that it is now overvalued in comparison with the new standard of the United States. This would be no disadvantage if the price-level of the United States would rise promptly to correspond with the reduction of the dollar standard, but in the existing situation there is a profit in drawing gold from the Bank of France and converting it into United States money which may be used for purchase of American products to be sold in France or elsewhere, in competition with French products.

However, that peril may not be as formidable as it seems. France already has a pretty effective system for keeping foreign goods out of France, and the competition between French and American products in other markets is hardly of enough importance of itself to seriously threaten the French monetary system. Nor is it probable that very much gold will be taken from France merely to be employed in the United States in competition with all the money and credit already here.

However, it is evident that some well informed persons in France view the situation with concern. Paul Reynaud, a former Minister of Finance, in a speech made in the Chamber of Deputies on February 19, is reported in part as follows:

> The first devaluation of the franc (in 1928) represented formal recognition of an accomplished fact, namely, that the franc had lost four-fifths of its prewar gold value. Similar action at this time would represent a means of "resisting the impact of the world economic crisis upon our currency."
>
> It is still possible to avoid devaluation of the franc, but only at the price of merciless reduction in state expenditures and reduction of production costs, which are in France 30 to 40 per cent higher than anywhere else.
>
> If the Parliament is unable to restore the public finances to a sound condition, then the issue should be placed before the voters for their decision. Failing such action, and assuming devaluation to be unavoidable, then it had better be undertaken by a strong government, such as the present Doumergue Cabinet of National Union, instead of the country's being allowed to drift into devaluation by the method of inflation.

We do not understand M. Reynaud to favor another devaluation, but as simply setting before the Chamber the only alternative.

The real danger in France, as elsewhere, is that the voting mass of the people has little understanding of the vital issues involved, because it does not take the trouble to understand them and has little feeling of responsibility for public policies. It knows that it does not want to pay taxes, have wages reduced or have governments resort to economies; it shows little interest in budgets or in governments, except for what it can get, is influenced by appeals to class prejudice, and votes for office-seekers who promise to increase the expenditures and tax the rich. The question in France and elsewhere is whether either government or business can be conducted upon business principles.

If France devalues the franc again it will be a new demonstration that one devaluation, or one stage of depreciation, leads almost inevitably to another, as Andrew D. White so clearly showed sixty years ago in his history of the French assignat currency of 1790-95. Already the truth is demonstrated that one devaluation does not stop the demand for more.

At this writing the latest news is that the Chamber of Deputies has voted the Prime Minister, M. Doumergue, dictatorial power to balance the budget. This has relieved the tension and the demands for gold upon the Bank of France apparently have fallen to insignificant proportions.

Effects Upon the United States

The new monetary policy of this country has been guided by the theory that a scarcity of gold existed, caused the fall of prices, and that this could be overcome by making more

dollars out of the present stock of gold. This theory was discussed in these columns last month with the comment that the only way the additional dollars could become effective upon prices was by being used to buy services or goods. The supply of money might be doubled or trebled or quadrupled, but if the business public did not see opportunities to use it advantageously the increase would have no effect upon prices. Furthermore, the banking system has held a great surplus of unused bank deposits and lending capacity in every year of the depression and if the public did not care to use these available funds in industry what reason was there for supposing that it would use additional funds?

The common saying, that notwithstanding these funds in banks there has been a lack of money in circulation, is meaningless, because money is put into circulation by business activity and when business slows down cash holdings gradually are expended for current needs and find their way into the banks for safekeeping. Business is eager enough to employ money when the conditions are favorable, but except in charity no rational person expends money in production unless there is a prospect of selling the products without loss.

The Real Cause of the Depression

The real purchasing power in the markets, as often set forth in these columns, exists in the labor and commodities offered for sale. Money, as we have quoted distinguished economists in saying, is only a medium of exchange, which performs its function so efficiently that it actually obscures the fact that all business is a process of exchanging goods and services. When this truth is grasped it will be seen that it is vitally important that all offerings shall come on the markets in right relations, both as to quantities and prices. If they are not so offered, trade is blocked, consumption falls off, surpluses appear, unemployment develops, prices fall, and all of the symptoms of the last four years appear.

The most important disruption of trade relations has been that between primary products on the one hand and finished goods, transportation services, and urban services generally, on the other hand. The gross income from farm production in the United States in 1919 was officially valued at $16,935,000,000; in 1929 at $11,918,000,000, and in 1932 at $5,143,000,000, and there were more farmers in 1932 than in 1929. Since, in the meantime, transportation charges on farm products per cwt. declined on the whole but slightly, if at all, and the products and services which farmers bought declined much less than the products they sold, the ability of the farm population to buy goods in the markets declined in proportion to the disparity between the prices they received and the prices they had to pay. This disruption resulted from violent changes in production, wages, prices and trade relations caused primarily by the war.

The January, 1934, number of "Foreign Affairs" contains an article by Secretary Wallace, of the Department of Agriculture, which gives a graphic account of some of the effects of the war upon agriculture, and he has repeated the substance of it in numerous addresses. We do not wish to be understood as endorsing all of his policies, but his diagnosis of the plight of agriculture and of the depression is unanswerable.

The Secretary is making tremendous efforts, at stupendous costs, to curtail farm production in order to raise farm prices to their pre-war "parity" with the prices of what the farmer must buy, but other branches of the Government are as actively engaged in raising the latter prices, with the result that as yet the Secretary's policies have had but scanty results. The Department of Agriculture compiles from Bureau of Labor calculations monthly figures of prices received by farmers for their own products and prices paid by farmers for the products they commonly buy, with the ratio of the former to the latter. In the following table these are compared with the Bureau of Labor's complete table (including the farm staples) of wholesale prices:

General Trend of Prices and Purchasing Power of Farmers

(On five year base, August, 1909—July 1914=100)

	Feb., 1933	July, 1933	Dec., 1933	Jan., 1934	Beginning of Feb., 1934
Wholesale prices (784 commodities)	87	101	103	105	106
Prices received by farmers	49	76	68	70	71
Prices paid by farmers	101	107	116	116	117
Ratio of prices received by farmers to prices paid by farmers........	49	71	58	60	61
Ratio of prices received by farmers to all wholesale prices, including their own......	56	75	66	67	67

The first comment to be made upon the above figures is that the rise of prices of farm products since February, 1933, has been largely the result of the reduced yields of several crops, notably wheat and corn, which means that the farmer has lost in quantity a part of what he has gained in prices.

The table shows that while the farmer gained from February to July last year, when prices were influenced in part by a speculative movement, he has lost ground both actually and relatively since last July, prices received having declined since then, while prices paid have advanced. It is since July that the "codes" for industrial regulation have been going into effect.

It is rational to believe that with the industrial system thrown into such confusion as that which has resulted from the war, the au-

thority of the Government, wisely exercised, might be helpful in restoring order. This opinion was expressed in these columns when the National Recovery Act became a law. It is not criticism of the intent of the Act, or of the Act itself, to say that the policies adopted in its administration should conform to basic economic principles and that the varied activities of the Government should be in harmony with each other. It is constructive, rather than destructive, comment to say that the governmental activities are in some respects conflicting.

The situation appears to be that when, as the result of Secretary Wallace's policies, money devaluation, or other causes, the costs of living rise, the leaders of organized labor at Washington promptly claim that wages must rise to keep pace. This, if persistently followed, will mean that the maladjustment between farm products and urban products and manufactured goods will be maintained permanently. Inasmuch as this is the principal cause of the depression, it follows that under this policy the high ratio of unemployment in all lines of activity will continue indefinitely.

Transportation Costs

While the prices of farm products as shown above are about 29 per cent *below* the prices of 1913, freight rates upon these products are 40 per cent or more *above* the 1913 rate. Moreover, this is true of crude and bulky commodities generally. Mr. C. H. Huntress, Executive Secretary of the National Coal Association, in an address last month said:

> High freight rates on coal had contributed more than any other single factor to the present plight of the railroads. Unless and until the freight rate structure is overhauled, with a very substantial reduction of rates on basic commodities, particularly bituminous coal, there can be no permanent recovery in this nation. Freight rates in general, including coal rates, are still at the 1923 level.
>
> The importance of N. R. A. as a recovery measure is dwarfed by the transcendental, fundamental need of reduced rates for the movement of basic commodities. Over 60 per cent of the delivered price of coal last year was the freight rate factor. One of the chief obstacles in the way of increased volume of coal consumption is the failure of the railroads to adjust their freight rates downward in accordance with the price movement of all other commodities and services.

On the other hand, it is evident from their own financial status that the railroads are in no position to reduce their charges unless they can effect a reduction of operating costs, which are mainly in the wages of their own employes and the wage factor in the supplies they buy. The average hourly wage of railroad employes is approximately 140 per cent above the 1913 level and the brotherhoods are striving to have the 10 per cent reduction of 1932 restored. The purchasing power of their wages since 1929 has been continuously higher than in 1929, and in 1932 (when they accepted a 10 per cent reduction), they were higher by about 25 per cent.

Shortened Work Time

The policy of the short work-week—30 to 40 hours—inevitably supports the claim for higher hourly wages, which increase production costs and raise prices, thus reducing the quantity of goods that can be sold and the opportunities for employment.

The newspapers report Miss Frances Perkins, the Secretary of Labor, as continually urging the reduction of working time with compensatory increase of hourly wages. A dispatch to the N. Y. Times, dated February 16th says:

> For nearly three hours the Secretary of Labor sat at the House Labor Committee table and presented her views on why the workers' hours should be shortened, their wages kept up in the meantime and a law enacted to provide insurance compensation when they are out of work.
>
> I favor a shortening of the work-week, either by law or in practice, or both, Miss Perkins explained. "I think it is essential for our civilization and for maintaining a balance between industrial workers and farm workers. But if we move to shorten the work-week we must take into account the stability of the workers' wages and increase them commensurately with the decrease in hours of work."

It will be seen that Miss Perkins recognizes the principle that a balance must be maintained between the several parts of the economic organization, in order that their products and services may be readily sold to each other, but she does not in this statement recognize that an unbalanced relationship already exists between the wage-workers in whom she is especially interested and the farmers, or that the latter must gain upon the former in order that this maladjustment may be overcome.

Her argument for higher wages in the urban industries is that the workers will be thereby enabled to consume more of farm products, but an individual can consume only a limited amount of farm products daily, and it is clear that the aggregate of consumption will be increased by an extension of employment and increase of the aggregate of wage-payments, rather than by an increase of hourly wages for a diminished number of hours.

It is in order to ask who is going to buy the goods produced at the increasing costs which the plan proposed by Miss Perkins will impose. She maintains that wage-increases are necessary to enable the wage-workers to buy them, but even in the case of the same wage-workers this is like a cat chasing its own tail, for every increase of production costs is passed on to consumers and reduces their purchasing power as much as it increases that of producers. Moreover, 44 per cent of the population of the United States lives in the country or in villages or cities of less than 2,500 persons, and are immediately dependent upon the rural occupations. They are largely outside of the scope of the codes in which Miss Perkins is concerned, by which the urban groups are able

to raise prices on each other and on the rural population. They are indeed the forgotten people, except for the care bestowed by Secretary Wallace, and even this tends to make the lot of many of them still more difficult. Furthermore, it is certain that all of the forgotten people will be missed in the market place.

Except as they are a part of a careful and harmonious policy to restore balanced relations in production and trade, higher wages and prices secured by restrictions upon industry cannot improve the conditions of either farmers or wage-workers. Human welfare depends upon abundance, not scarcity.

The Influence of Lower Exchange Rates

The advisers of the new monetary policy evidently have counted largely upon the influence of lower rates for the dollar in the foreign exchanges. It is true that a fall in the value of the dollar currency in terms of a foreign currency, other conditions remaining the same, will cause our exports to yield higher prices to the American producer, and that if prices in this market do not rise to completely correspond to the depression of our money, an inducement will exist for foreigners to buy more of our products. On the other hand, it is quite evident that we cannot crowd increased quantities of our products into foreign markets without depressing prices there and displacing home products, which foreign governments are determined shall not be done. It is a mistake to think that it can be done. And, finally, the amount of our export business is so small in comparison with our total volume of domestic trade that the reduction of the dollar in the exchanges has but slow influence upon the general level of internal prices. The President's advisers apparently have counted upon the new exchange rates to promptly pull up the domestic price level, but instead of that they are pulling the foundation out from under foreign monetary systems. Apparently, a miscalculation was made in judging the relative weights of the two sides of the equation.

Summary

Legal devaluation does not of itself accomplish a rise of prices. The tendency is to do so in the long run, but other factors in prices may delay its natural effect indefinitely. It depends upon all the conditions affecting trade relations. Moreover, it does not affect all prices in the same degree and the complications are so many that the effects are incalculable. How it will affect any individual or group depends upon the relative effects, because the real compensation of every individual or group for services rendered comes in the services of others. The benefit in every case will have offsetting effects, but the net results may vary. No real devaluation will occur without an increase of business activity and rise of prices. Devaluation occurs by the rise of prices; the avowed purpose is to raise prices.

Confused Thinking

An example of erroneous thinking is afforded by the Congressman who declared that "if there ever was a time when economic conditions were good it is now." He was influenced by the announcement of a cash balance in the Treasury of over $5,000,000,000, of which about $2,800,000,000 according to one of the Treasury advisers, had been picked out of "thin air" by writing up the gold holdings of the Treasury, and practically all of the remainder had been obtained by borrowing. As to the $2,800,000,000, it represents the same kind of gain that would occur in the country's wheat crop if the number of bushels was increased by reducing the weight of the bushel from 60 pounds to about 36.

Incidentally, it seems pertinent to analyze the "profit" which the Treasury is said to be realizing by the devaluation. When the devaluation reaches full success the price-level may be assumed to have advanced 75 to 100 per cent, and Government expenditures, except for payments on the public debt, may be assumed to have increased correspondingly. If these increases do not occur devaluation will not be a success. The total general and emergency expenditures of the Government in the current fiscal year are estimated in the budget at $11,057,000,000, of which $1,230,000,000 is to be paid as interest or principal of the public debt. Calculating upon this basis, the remaining $9,827,000,000 of Government annual expenditures would be swollen by the above percentages. The only savings will be those arbitrarily affected at the expense of the Government's creditors.

Silver in the Background

There is still activity among the advocates of silver legislation, and they manifest much confidence, but it is inconceivable that after the increase in the supply of money and credit provided for by devaluation and the unexpected gold influx, further inflation will be at all considered by the responsible authorities.

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If you want help in the shipment of goods to any place in the world

If you want to arrange for an agent to handle your goods in any foreign country

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This institution is fully equipped to take care of your banking needs through its correspondent banks in every commercial center of the country and in branches in foreign countries

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Call on any of our 72 branch banks which are National City Bank financial service stations and every helpful service will be extended

The National City Bank of New York with its 88 branches in 24 foreign countries and correspondent banks in every important commercial center of the world is in a position to draw on 122 years of practical banking experience for the service of its customers. At any one of its 72 branches in the City of New York the same quality of service, which has won a place for The National City Bank in the broad field of world finance, is available to customers.

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